

Message Text

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FM AMEMBASSY THE HAGUE

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INFO AMEMBASSY JAKARTA

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POUCHED TO: AMEMBASSY BERN, AMEMBASSY BONN, AMEMBASSY BRUSSELS,
AMEMBASSY CANBERRA, AMEMBASSY COPENHAGEN, AMEMBASSY LONDON,
AMEMBASSY MANILA, AMEMBASSY OSLO, AMEMBASSY OTTAWA,
AMEMBASSY PARIS, USMISSION OECD PARIS, AMEMBASSY ROME, AMEMBASSY
VIENNA, AND AMEMBASSY WELLINGTON.

E. O. 11652: N/ A

TAGS: EAID, ID

SUBJECT: REPORT ON INTERGOVERNMENTAL GROUP ON INDONESIA (IGGI)
14 TH MEETING, AMSTERDAM, MAY 7-8 1973

SUMMARY

FOURTEENTH IGGI MEETING RESULTED IN PLEDGES OF \$719.8 MILLION FOR
NON- FOOD ASSISTANCE (\$245.2 MILLION PROGRAM AND \$474.6 PROJECT)
EXCEEDING GOI REQUEST OF \$600 MILLION. MAJOR FOOD AID DONORS
INDICATED SUPPLY CONSTRAINTS AND DEFERRED COMMITMENTS IN RESPONSE
GOI REQUEST FOR \$160 MILLION THIS CATEGORY. MEMBER GOVERNMENTS AND
INTERNATIONAL INSTITUTIONS COMMENDED GOI FOR ITS DEVELOPMENT
PROGRESS ACHIEVED DESPITE RICE CRISIS, AND COMMENTED ON PROMISING
PROSPECTS OF THE ECONOMY. GROUP EXPRESSED GENERAL SATISFACTION

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AFTER EXPLANATION BY GOI OF NEW PROCEDURES FOR MANAGEMENT OF
SHORT AND MEDIUM- TERM DEBT BUT STRESSED IMPORTANCE THAT PROCEDURES
BE PERFECTED AND EFFECTIVELY IMPLEMENTED AND ADDED (FOLLOWING
USDEL LEAD) THAT THERE SHOULD ALSO BE NO NEGLECT AS TO THE

QUALITY OF INVESTMENTS OF THESE BORROWED FUNDS. SOFTER TERMS GENERALLY ENDORSED BUT INDONESIAN PROPOSAL FOR UNTYING MET MIXED REACTION WITH MOST DELEGATIONS UNABLE ACCEDE TO GOI REQUEST. IMPORTANCE OF INCREASED EFFORTS ON AGRICULTURAL DEVELOPMENT WAS STRESSED AND GOI PLANS WERE NOTED WITH APPROVAL. THERE WAS DISCUSSION OF SUBSIDIES QUESTION WITH GOI EXPRESSING INTENT REDUCE WHEAT SUBSIDY. MOBILIZATION OF INCREASED RESOURCES THROUGHT IMPROVED TAXES AND ATTENTION TO SUBSIDIES WAS STRESSED BY CHAIRMAN IN CLOSING REMARKS. END SUMMARY.

1. OPENING COMMENTS: NETHERLANDS MINISTER FOR DEVELOPMENT COOPERATION BOERTIEN OPENED CONFERENCE WITH SHORT STATEMENT SUMMING UP STATE OF INDONESIAN DEVELOPMENT PROGRESS AND CONGRATULATING PROFESSOR WIDJOJO ON APPOINTMENT AS MINISTER OF STATE FOR ECONOMIC, FINANCIAL AND INDUSTRIAL AFFAIRS AND MR. RACHMAT SALEH ON HIS APPOINTMENT AS GOVERNOR OF BANK INDONESIA. BOERTIEN SPOKE OF SUCCESS OF SOON TO BE COMPLETED FIRST FIVE YEAR PLAN AIMED AT RECOVERY AND REHABILITATION OF ECONOMIC AND MONETARY STRUCTURE, NOW THAT STABILIZATION OBJECTIVES ESSENTIALLY ACHIEVED. RESULTS OF PAST YEAR GENERALLY EXCEEDED OBJECTIVES BUT PERFORMANCE TEMPERED BY RICE SHORTAGES WHICH STILL REQUIRE CLOSE ATTENTION DUE WORLD- WIDE SHORTAGE. SPECTACULAR GROWTH OF OIL PRODUCTION NOTED BUT DANGERS WARNED IF TOO MANY SHORT AND MEDIUM- TERM CREDITS WERE TAKEN UP ON NON- CONCESSIONAL TERMS. ACTIVITIES OF FOREIGN OIL COMPANIES AND FOREIGN COMPANIES EXTRACTING OTHER RAW MATERIALS (COPPER, NICKEL) VIEWED FAVORABLY SINCE INCREASE IN NON- TRADITIONAL EXPORTS WILL CONSIDERABLY IMPROVE INDONESIA' S FUTURE BALANCE OF TRADE POSITION. GREATLY INCREASE TIMBER PRODUCTION AND RECORD LEVEL OF TEXTILE PRODUCTION NOTED.

2. WITH MAIN ECONOMIC DIFFICULTIES SOLVED AND FIRST FIVE YEAR PLAN SUCCESSFUL, SECOND FIVE YEAR PLAN CAN START ON WHOLLY DIFFERENT BASE. PRIORITY STILL NEEDS BE GIVEN TO FOOD PRODUCTION WITH FURTHER ATTENTION TO IMPROVING INFRASTRUCTURE. DEVELOPMENT ON LARGER SCALE IN SOCIAL FIELD, ESPECIALLY EDUCATION AND HEALTH SERVICES, WILL REQUIRE LONG- TERM INVESTMENTS. EMPLOYMENT ALSO CITED AS IMPORTANT SOCIAL PROBLEM FOR INCREASED ATTENTION.

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3. BOERTIEN DREW PARTICULAR ATTENTION TO PAST GROWTH OF INDUSTRIAL PRODUCTION OF GOODS PREVIOUSLY IMPORTED. THERE WAS CONTINUING NEED FOR DK AID TO SUSTAIN THIS GROWTH. SINCE EXTERNAL CREDITS ARE MORE FAVORABLE THAN LOCAL SOURCES OF FINANCING, LOCAL CAPITAL GOODS INDUSTRY WILL HAVE DIFFICULTIES COMPETING AND SURVIVING. HE SUGGESTED THAT GOI CREATE BETTER LOCAL FINANCING FACILITIES TO IMPROVE INCENTIVES FOR PUBLIC AGENCIES TO PURCHASE INDONESIAN CAPITAL GOODS. HE ALSO PROPOSED CONSIDERATION BY DONORS OF PARTIAL UNTYING TO MAKE INDONESIAN PRODUCERS OF CAPITAL GOODS ELIGIBLE.

4. INDONESIAN STATEMENT. MINISTER WIDJOJO THANKED GON FOR ORGANIZING MEETING AND VOICED SPECIAL APPRECIATION FOR IMF AND IBRD

REPORT S. HE REFERRED TO REELECTION OF PRESIDENT SUHARTO AND APPOINTMENT OF " SECOND DEVELOPMENT CABINETS", WHICH HAD IMPORTANT MUTUALLY REINFORCING EFFECT ON ACCELERATING DEVELOPMENT IN CLIMATE OF STABILITY. WIDJOJO REFERRED TO DROUGHT- INDUCED RICE SHORTAGE CRISIS AND MASSIVE COMMERCIAL IMPORTS THAT WERE REQUIRED IN ADDITION TO GENEROUS RESPONSES OF IGGI MEMBERS. THESE IMPORTS RESULTED IN CONSIDERABLE LOSSES IN FOREIGN EXCHANGE. TO ASSURE AGAINST RECURRENCE OF GOOD CRISIS THIS YEAR GOI HAS TAKEN CONCER- TED STEPS TO INCREASE PRODUCTION AND PROCURE STOCKS TO ENSURE ADEQUATE SUPPLY OF RICE AT GOVERNMENT' S DISPOSAL. EVEN SO IT IS ESSENTIAL THAT TIMELY AND LARGE SCLAE RICE IMPORTS BE RECEIVED TO AVOID CRISIS AND WIDJOJO URGED COOPERATION OF IGGI MEMBERS TO MEET INDONESIA' S FOOD REQUIREMENTS.

5. WIDJOJO SPOKE OF PROBLEMS RELATING TO RECENT CURRENCY REALIGNMENT AND MAINTAINING RUPIAH RATE RELATIVE TO U. S. DOLLAR. WHILE EFFECT OF REVALUATION ON EXPORTS BENEFICIAL, HE NOTED COST OF DEVELOPMENT PROJECTS INCREASED DUE TO SUBSTANTIAL PRICE RISES OF ESSENTIAL COMMODITIES FROM THOSE COUNTRIES WHICH UPVALUED. EQUALLY DISTIRUBING WAS SUBSTANTIAL INCREASE IN BURDEN OF FOREIGN DEBT REPAYMENT WHICH ALMOST WHOLLY CARRIED BY GOVERNMENT BUDGET AND HE HOPED INDUSTRIALIZED COUNTRIES WOULD ARRIVE AT EFFECTIVE SOLUTION THIS PROBLEM WHICH AFFECTED MOST DEVELOPING COUNTRIES.

6. HE COMMENTED BRIEFLY ON TERMS OF AID, URGED IGGI

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DISCUSS WAYS TOSOFTEN REAL TERMS AND DREW ATTENTION TO IBRD REPORT ON " TERMS AND CONDITIONS OF IGGI ASSIST- ANCE TO INDONESIA, 1968-1972." HE ALSO URGED IGGI DISCUSS AND SEEK CONSENSUS ON GOI PROPOSAL FOR UNTYING PROJECT AID WITH REGARD PROCUREMENT IN INDONESIA, PAR-

TICULARLY SINCE DOMESTIC, FOREIGN AND JOINT PRIVATE ENTERPRISES INCREASING PRODUCTION OF CAPITAL GOODS.

7. WIDJOJO CITED IMF PAPER CONCERNING IMPROVED BUDGET POSITION AND IMPROVEMENT OF FOREIGN EXCHANGE RESERVE PROJECTION. HE THEN TURNED TO PROBLEM OF MEDIUM- TERM BORROWING NOTING THAT TOTAL SHORT AND MEDIUM- TERM BORROWING REACHED \$420 MILLION OF WHICH \$372 MILLION INCURRED BY PERTAMINA. ASSURING GROUP OF GOI CONCERN, HE GENERALLY DESCRIBED THE LOANS CONTRACTED AND SAID THESE BORROWINGS HAD BEEN TAKEN INTO CONSIDERATION IN APPRAISING EXTERNAL BORROWING REQUIREMENTS FOR 1973/74. HE DESCRIBED MEASURES TAKEN TO INSURE MORE EFFECTIVE MANAGEMENT OF SHORT AND MEDIUM- TERM FOREIGN BORROWING WHICH INCLUDE: (A) STRENGTHENING, MONITORING AND SUPERVISING FOREIGN BORROWING IN MINISTRY OF FINANCE AND CENTRAL BANK, (B) ESTABLISHMENT IN NEW DIVISION IN MINISTRY FINANCE OF SEPARATE OFFICE RELATED SOLELY TO FINANCIAL OPERATIONS OF PERTAMINA AND ANOTHER FOR ALL OTHER STATE- OWNED ENTERPRISES, AND LIMITED OFFICIAL USE
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(C) MONTHLY CONSULTATIONS AMONG CENTRAL BANK, MINISTRY OF FINANCE, MINISTRY OF MINING AND PERTAMINA.

8. IN CLOSING, WIDJOJO SPOKE BRIEFLY OF SEVERAL ITEMS INCLUDING INCREASED REVENUE DUE RISES IN OIL PRICES; INCREASES IN ALL FARES IN TRANSPORTATION SECTOR; SUBSTANTIAL REDUCTION IN LENDING NOTES OF STATE- BANKS WITH SIMPLIFICATION OF INTEREST- RATE STRUCTURE; STEPS TAKEN TO ENSURE MORE MEDIUM- TERM LENDING FOR SMALL INVESTORS TO STIMULATE EMPLOYMENT; IMPROVED PROCEDURES FOR APPROVAL AND IMPLEMENTATION OF DOMESTIC AND FOREIGN CAPITAL INVESTMENT PROJECTS; AND FORMATION OF PRIVATE INVESTMENT COORDINATING AGENCY WITH AUTHORITY TO EXPEDITE AND ASSIST PRIVATE INVESTORS.

9. SUMMARY OF STATEMENT BY IMF DELEGATE. INDONESIAN ECONOMY ACHIEVED SATISFACTORY GROWTH IN PAST YEAR, DESPITE SETBACK IN RICE PRODUCTION, THERE WERE CONSIDERABLE INCREASES IN OUTPUT IN OIL, FORESTRY, AND MANUFACTURING SECTORS AND ACCELERATION OF INVESTMENT IN BOTH PRIVATE AND PUBLIC SECTORS. HOWEVER, RICE SHORTAGES IN LAST QUARTER 1972 LED TO SHARP INCREASE IN RICE PRICES (88 PERCENT). IN FIRST QUARTER OF 1973, FOLLOWING ARRIVAL OF LARGE RICE IMPORTS, UPTREND IN RICE PRICES WAS REVERSED AND CONSUMER PRICE INDEX DECLINED SLIGHTLY. IN 1973/74
LARGER RICE PRODUCTION IS PLANNED.

10. LATEST ESTIMATES INDICATE MORE FAVORABLE BUDGETARY PERFORMANCE IN 1972/73 THAN WAS ENVISAGED AT LAST IGGI

MEETING. THE ROUTINE SURPLUS IS NOW ESTIMATED AT RP 136 BILLION. BUDGET ESTIMATES FOR 1973/74 SHOW CONTINUED GROWTH IN ROUTING BUDGET SURPLUS AND DEVELOPMENT EXPENDITURES. ROUTINE BUDGET SURPLUS EXPECTED TO FINANCE 43 PERCENT OF DEVELOPMENT EXPENDITURES.

11. REVISED BALANCE OF PAYMENTS ESTIMATES FOR 1972/73 INDICATE OVERALL SURPLUS OF \$348 MILLION, LARGER THAN EXPECTED MAINLY BECAUSE OF HIGHER- THAN- ESTIMATED INFLOW OF CAPITAL. DURING FEBRUARY 1973 REALIGNMENT OF CURRENCIES, INDONESIA MAINTAINED EXCHANGE RATE OF RUPIAH IN TERMS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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OF US. DOLLAR. THIS IS EXPECTED TO STRENGTHEN COUNTRY'S FUTURE BOP BY IMPROVING TRADE POSITION. NET OFFICIAL INTERNATIONAL RESERVES ARE NOW PROJECTED TO INCREASE BY \$140 MILLION IN 1973/74.

12. OWING MAINLY TO SUBSTANTIAL INCREASE IN EXTERNAL SURPLUS, TOTAL LIQUIDITY INCREASED AT CONSIDERABLY HIGHER RATE IN 1972 THAN PREVIOUS YEARS DESPITE A POLICY OF CREDIT RESTRAINT BY BANK INDONESIA. TO COUNTER-BALANCE THIS LARGE INCREASE IN CREDIT BASE, BANK INDONESIA HAS RECENTLY TAKEN MEASURES TO RESTRICT CREDIT AND TO NARROW SPREAD BETWEEN BANK INDONESIA'S INTEREST RATES ON REFINANCE CREDITS AND COMMERCIAL BANK LENDING RATES.

13. THERE WAS SUBSTANTIAL INCREASE IN PUBLIC SECTOR FOREIGN DEBT DURING PAST YEAR. FOREIGN BORROWING BY GOVERNMENT IN 1972/73 WAS CONSIDERABLY HIGHER THAN PLANNED. FOREIGN DEBT IN THE 1- TO-3 YEAR MATURITY RANGE WAS \$83 MILLION COMPARED TO ORIGINAL INTENTION TO LIMIT TO \$20 MILLION. FOREIGN LOANS OF 3- TO-15 YEAR MATURITY WERE TO BE LIMITED TO \$125 MILLION BUT ACTUAL LOANS TOTALLED \$338 MILLION. OF THESE BORROWINGS TOTAL PERTAMINA BORROWING ACCOUNTED FOR \$372 MILLION. BASED ON THIS EXPERIENCE, GOI HAS TAKEN STEPS TO MORE EFFECTIVELY REGULATE FOREIGN BORROWING OF PUBLIC SECTOR UNDER NEW PROCEDURES FOR APPROVAL AND REPORTING.

14. THE IMF HAS RECENTLY APPROVED STAND-BY FOR 1973/74 AMOUNTING TO SDR 50 MILLION. AS PART OF THIS FINANCIAL PROGRAM, GOI WILL LIMIT FOREIGN LOANS AND GUARANTEE OF PUBLIC SECTOR WITH INITIAL MATURITIES OF ONE YEAR UP TO AND INCLUDING 15 YEARS TO \$220 MILLION, WITHIN THIS CEILING, AMOUNT OF LOANS IN 1- TO-3 YEAR RANGE LIMITED TO \$30 MILLION. CEILING ON PERTAMINA BORROWING HAS BEEN SET AT \$150 MILLION, IN ADDITION, PERTAMINA PLANS UNDERTAKE INVESTMENT FINANCED BY JAPANESE CONCESSIONAL LOAN FOR OIL SECTOR; IT ALSO PLANS TO INVEST IN REFINERY AT CILACAP AND POSSIBLY IN TWO NATURAL GAS LIQUIFACTION

PLANTS. IF THESE PROJECTS ARE ESTABLISHED AS FEASIBLE,
PERTAMINA WILL CONTRACT FOREIGN LONG- TERM LOANS.

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15. SUMMARY STATEMENT BY IBRD DELEGATE. WORLD BANK
STATEMENT REAFFIRMED GENERALLY OPTIMISTIC ASSESSMENT
OF MEDIUM- TERM ECONOMIC PROSPECTS ESTIMATING 7 PERCENT
GROWTH OVER NEXT FIVE- TO- SEVEN YEARS. SPECIFIC COMMENTS
DIRECTED TO RICH SHORTAGE, FOREIGN BORROWING AND PRIVATE
INVESTMENT. REGARDING RICE SHORTAGE BANK COMMENDED
EFFECTIVE GOI RESPONSE (WIDJOJO SINGLED OUT) ONCE
SHORTAGE APPARENT BUT CAUTION AGAINST OVER CONFIDENCE
NOW THAT CRISIS PAST AND INITIAL INDICATORS NEXT HARVEST
FAVORABLE. BANK FEELS LAST YEAR' S SETBACK MAY BE ABER-
RATION WITHIN CONTEXT OF INCREASED RICE OUTPUT DURING
FIRST PLAN.

16. REGARDING EXTERNAL BORROWING EXCESSES, BANK STRONGLY
STRESSED SERIOUSNESS OF ISSUE STATING THAT EXTENT, TERMS
AND UNSPECIFIED PURPOSES OF BORROWING UNDERMINED
DEBT RESCHEDULING, " THE CONTINUANCE OF CONCESSIONAL AID

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TO INDONESIA AND THE ESTABLISHMENT AND FUNCTIONING OF
IGGI ITSELF". BANK PARTICULARLY ALARMED BY LACK OF
AWARENESS AND CONTROL EXHIBITED BY FINANCIAL AUTHORI-
TIES AND " SAW THE DANGER OF A MAJOR BREACH IN THE
FINANCIAL DISCIPLINE ESTABLISHED DURING THE PAST
SEVERAL YEARS". BANK OBSERVED THAT FAILURE TO JUSTIFY

PERTAMINA ACTIVITIES ACCORDING TO NATIONAL RESOURCES AND PRIORITIES " COULD GRAVELY PREJUDICE THE NATIONAL CREDIT". HOWEVER, BANK EXPRESSED GUARDED SATISFACTION AND CONFIDENCE IN NEW MEASURES INCLUDING IMPLEMENTATION DECREE AND STRENGTHENING OF MINISTRY OF FINANCE STAFF FACILITATING GREATER SUPERVISION OF PERTAMINA OPERATIONS.

17. REGARDING PRIVATE INVESTMENT, BANK WELCOMED RECOMMENDATIONS BASED ON SUMARLIN REPORT FOR REFORM OF INVESTMENT APPLICATION AND REGULATION PROCEDURES.

18. DONOR PLEDGES. ALL DONORS PLEDGED OR EXPRESSED INTENTION REGARDING 1973/74 AID COMMITMENT. CONTRIBUTIONS FOR NON- FOOD AID TOTALLED \$719.8 MILLION (\$245.2 MILLION PROGRAM AND \$474.6 MILLION PROJECT) SUBSTANTIALLY EXCEEDING INDONESIA'S AID REQUEST OF \$600 MILLION. IMF REPRESENTATIVE NOTED THAT PORTION OF PLEDGE TOTAL MUST BE ATTRIBUTED TO RECENT CURRENCY REALIGNMENTS.
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ALTHOUGH SOME DONORS ANNOUNCED CONTRIBUTIONS OF FOOD AID, MAJOR DONORS (U. S. AND JAPAN) INDICATED THEY WOULD REVIEW FOOD AID LATER IN YEAR IN LIGHT INDONESIAN PRODUCTION AND SUPPLY CONDITIONS IN THEIR OWN COUNTRIES. FOLLOWING SUMMARIZES SIGNIFICANT DONOR ANNOUNCEMENTS (ALL FIGURES IN U. S. DOLLARS):

19. A) AUSTRALIA: ANNOUNCED CONTINUATION OF ASSISTANCE IN FORM RENEWED THREE- YEAR COMMITMENT TOTALLING APPROXIMATELY \$97 MILLION 1973/74 TO 1975/76. 1973/74 COMMITMENT WILL INCLUDE \$10.5 PROGRAM AID, \$13.3 PROJECT AID AND \$5.6 FOOD AID IN ADDITION TO \$1.0 MILLION FOR TRAINING WHICH NOT COUNTED IN IGGI PLEDGE.

B) BELGIUM: ALTHOUGH NOT IN POSITION MAKE SPECIFIC PLEDGE, BELGIUM REPRESENTATIVE STATED THAT HE EXPECTED GOB WOULD PROVIDE \$3.8 BILLION PROGRAM AID, \$3.7 MILLION PROJECT AID, AND \$1.3 MILLION FOOD AID. TERMS FOR FINANCIAL AID WOULD BE MORE CONCESSIONARY THAN IN PREVIOUS YEARS WITH 30 YEARS REPAYMENT, INCLUDING 10 YEARS GRACE, AT 2 PERCENT.

C. CANADA: ANNOUNCED PLEDGE OF \$3 MILLION PROGRAM AID, \$10 MILLION PROJECT AID AND \$5 MILLION FOOD AID.

D. FRANCE: ANNOUNCED THAT DISCUSSIONS ON FRENCH ECONOMIC ASSISTANCE WERE HELD DURING PRESIDENT SUHARTO'S VISIT TO FRANCE AND THAT, AS RESULT, FRANCE WAS ABLE ANNOUNCE INCREASE, BOTH QUANTITATIVELY AND QUALITATIVELY, IN FRENCH AID TO INDONESIA. PROGRAM AID - \$10.4 MILLION; PROJECT AID - \$15.9 MILLION PLUS 15,000 TONS WHEAT (SHIPPED IN APRIL).

E. FRG: SUBJECT PARLIAMENTARY APPROVAL, GERMANY INTENDS PROVIDE \$22.8 MILLION PROGRAM AID, \$34.2 PROJECT

AID AND \$3.3 MILLION FOOD AID. GERMANY WILL ALSO PROVIDE ABOUT \$9 MILLION FOR TECHNICAL ASSISTANCE PROJECTS OUTSIDE OF IGGI CONTEXT AND ABOUT \$10 MILLION IN FINANCIAL SUPPORT FOR GERMAN VOLUNTARY AGENCIES OPERATING IN INDONESIA.

F. ITALY: ANNOUNCED THAT GOI IS CONSIDERING INCREASING ASSISTANCE TO INDONESIA IN VIEW PROGRESS IN MEETING DEVELOPMENT OBJECTIVE. FOR PRESENT, ITALY REAFFIRMED \$4 MILLION FOR PROJECT AID AND 6,000 TONS RICE OR 10,000 TONS WHEAT.

G. JAPAN: GOJ DELEGATION INDICATED THAT 1/3 FORMULA-LIMITED OFFICIAL USE
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TION CONTINUES PROVIDE GUIDELINES FOR JAPANESE NON- FOOD- AID ASSISTANCE WHICH FOR 1973/74 IS \$64.2 MILLION PROGRAM AID AND \$115.8 MILLION PROJECT AID. TERMS ARE MOST CONCESSIONAL EVER ACCORDED: 2.75 PERCENT OVER 30 YEARS WITH 10 YEARS GRACE. ALTHOUGH RECENT NEGOTIATIONS WITH GOI ON FOOD AID ASSISTANCE WERE INCONCLUSIVE, JAPAN HAS AGREED CONTINUE CONSULTATIONS THIS SUBJECT AND IN INTERIM WILL PROVIDE \$8 MILLION RICE UNDER FAC.

H. NETHERLANDS: ANNOUNCED PLEDGE OF \$51.7 MILLION DIVIDED \$26.0 MILLION PROGRAM AID AND \$25.7 PROJECT AID. THIS REPRESENTS INCREASE OF 10 PERCENT OVER PREVIOUS YEAR. AID WILL BE MADE AVAILABLE ON 50 PERCENT GRANT BASIS WITH REMAINDER AT 2.5 PERCENT OVER 30 YEARS. \$3 MILLION WOULD BE AVAILABLE FOR PROCUREMENT COTTON IN THIRD COUNTRIES. NETHERLANDS ALSO PLANS PROVIDE 15,000 TONS WHEAT ON GRANT BASIS INCLUDING TRANSPORT.

I. NEW ZEALAND: IN SUPPORT NEW ZEALAND TARGET PROVIDE .7 PERCENT GNP IN FOREIGN AID BY 1976 GONZ PLEDGED \$1.3 MILLION PROGRAM AID AND \$2.2 MILLION PROJECT AID IN 1973/74.

J. SWITZERLAND: ANNOUNCED PLEDGE \$6 MILLION ON UNTIED BASIS FOR WATER SUPPLY AND AGRICULTURAL PROJECTS.

K. U. K.: DUE TO RECENT IMPROVEMENT IN UTILIZATION BRITISH AID, UK REPRESENTATIVE ANNOUNCED INCREASE IN ASSISTANCE TO \$10.0 MILLION PROGRAM, \$19.8 MILLION PROJECT ON 25 YEAR TERMS WITH 7 YEAR GRACE AT ZERO/ INTEREST. UK ALSO PLANS PROVIDE 5,000 TONS WHEAT THROUGH EEC FOOD PROGRAM.

L. U. S: USDEL REITERATED PREVIOUSLY ANNOUNCED NON-FOOD PLEDGE OF \$150 MILLION PLUS " FAIR SHARE" OF FOOD AID EEDS, SUBJECT CONGRESSIONAL APPROPRIATIONS. AS IN PAST, NON- FOOD ASSISTANCE WOULD INCLUDE PL 480 COTTON AS WELL AS DK AND PROJECT AID, WITH SPECIFIC AMOUNTS TO BE DETERMINED AS YEAR PROGRESSES. USDEL EXPRESSED INTENTION TO DO ALL IT COULD TO HELP MEET INDONESIA' S FOOD AID NEEDS IN LIGHT SIGNIFICANT U. S. SUPPLY AND BUDGET LIMITATIONS.

M. IDA: EXPRESSED INTENTION SIGN AGREEMENTS TOTALING \$133 MILLION FOR PROJECTS IN LIVESTOCK, SUGAR MANU-

FACTURING, EDUCATION, HIGHWAY DEVELOPMENT AND RURAL
DEVELOPMENT.

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N. ADB: INDICATED THAT IT HAD PROJECTS UNDER CON-
SIDERATION FOR AUTHORIZATION TOTALING \$31 MILLION.

20. TERMS OF TRADE AND UNTYING. CHAIRMAN INTRODUCED
SUBJECT OF UNTYING AND INVITED DISCUSSION OF INDONESIAN
PROPOSAL. IBRD PRESENTED REPORT ON TERMS AND CONDITIONS
OF IGGI ASSISTANCE TO INDONESIA COVERING THE YEARS 1968
THROUGH 1972. CHIEF FINDINGS WERE THAT GRANT ELEMENT
OVER THE PERIOD WAS 68 PERCENT USING DAC FORMULA ,
WHICH CLOSELY CORRESPONDS TO THE WORLD AVERAGE, AND

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THAT THERE HAS BEEN NO APPRECIABLE SOFTENING SINCE 1969.

21. RACHMAT SALEH PRESENTED INDONESIAN UNTYING PROPOSAL.
WHILE DEAL WOULD BE COMPLETE UNTYING, HE RECOGNIZED
VIEWS OF PARTICIPATING GOVERNMENTS VARIED WIDELY. WITH
REFERENCE TO PROJECT AID, HE HOPED DONRS WOULD PERMIT
INDONESIAN FIRMS TO BID ON CIVIL ENGINEERING SERVICES
AND EQUIPMENT AND CAPITAL GOODS OF WHICH INCREASING AMOUNTS
COULD BE PURCHASED LOCALLY. SINCE INDONESIAN INDUSTRIAL
PRODUCTS MADE WITH IMPORT- TAXED MATERIALS, HE PROPOSED
THAT INDONESIAN PRODUCTS SHOULD HAVE 25 PERCENT PREFERENTIAL
TREATMENT RELATIVE TO LOAN FUNDED DUTY FREE FOREIGN
PRODUCTS.

2. CHAIRMAN CALLED FOR COUNTRY VIEWS ON NDONESIAN PROPOSAL AND IBRD REPORT. ALL NOTED LACK OF TIME TO STUDY IBRD REPORT WHICH WAS DISTRIBUTED ONLY DAY BEFORE.

A) AUSTRALIA RECALLED THEY HAD STIMULATED BANK REPORT AND WERE SYMPATHETIC BUT HAS NOT HAD TIME TO STUDY. NOTED, HOWEVER, THAT DIFFERENTIAL IN GOI PROPOSAL WOULD LEAD TO INCREASED PROJECT COSTS.

B) BELGIAN DELEGATE SAID THEY HAVE ALWAYS BEEN PRE-PARED PROVIDE UNTIED AID IF OTHER COUNTRIES DID BUT REALIZED ISSUE IS COMPLICATED. WITH ONLY FEW EXCEPTIONS LIMITED OFFICIAL USE
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BELGIUM PROVIDES ONLY PROGRAM AID SO UNTYING PROJECTS MOSTLY MOOT FOR THEM.

C) CANADA NOTED THEIR REGULATIONS DO NOT PERMIT UNTYING AND THAT THEIR GENEROUS NON- INTEREST TERMS OF AID WERE AS HELPFUL AS UNTYING.

D) FRENCH DELEGATE OPPOSED UNTYING IN PRINCIPLE. GIVEN PARLIAMENTARY AND PUBLIC OPINION WHICH REQUIRED ASSOCIATION OF DONOR WITH AID PROVIDED, UNTYING WAS UNREALISTIC. IN ANY EVENT IT WOULD NEED TO BE TAKEN UP FOR ALL LDCS, NOT COUNTRY BY COUNTRY.

E) GERMAN DELEGATE SAID THEY OPENMINDED ON UNTYING BUT THEIR CURRENT RESTRICTIONS FAVOR DEVELOPING COUNTRIES AND INDONESIA FIRMS PERMITTED TO BID.

F) ITALIAN DELEGATE STATED " THEY SHARED VIEWS OF THE OTHER DELEGATIONS ESPECIALLY FRENCH" AND BELIEVED ISSUE COULDN' T BE RESOLVED HERE OR FOR JUST ONE COUNTRY.

G) JAPANESE DELEGATE SAID GOJ FAVORS UNTYING, ESPECIALLY FOR ASIAN COUNTRIES. JAPANESE PROJECT AID BEING UNTIED FOR LDCS INCLUDING INDONESIA BUT PROGRAM AID DOESN' T INCLUDE INDONESIAN PROCUREMENT.

H) NETHERLANDS DELEGATE COMMENTED ON QUESTION OF DIFFERENTIAL FOR INDONESIAN PRODUCTS AND RECOGNIZING NEED TO AVOID DISCRIMINATION FELT COULD ABSORB SOME DIFFERENTIAL, PERHAPS 15 PERCENT.

I) NEW ZEALAND NOTED THEIR PROJECT AID IS IN GRANT FORM SO COULDN' T CONSIDER UNTYING IN PLANNED INCREASED AID LEVEL, WILL CONSIDER SOFT PROJECT LOANS AND PROCUREMENT IN INDONESIA.

J) SWITZERLAND STATED AID ALL UNTIED AND FELT INDONESIAN PROPOSAL DESERVES FAVORABLE CONSIDERATION.

K) UNITED KINGDOM DELEGATE AVOWED INTEREST IN WORKING TOWARD UNIVERSAL UNTYING BUT SAID IT DIFFICULT GO ALONG WITH LOCAL PURCHASES IN PROJECT AID.

L) UNITED STATES DELGATE SAID WE UNABLE ACCOMMODATE INDONESIAN PROPOSAL BUT NOTED LARGE AMOUNT U. S. COMMODITY AID GENERATED LOCAL CURRENCY FOR USE IN FINANCING PURCHASE LOCAL GOODS AND SERVICES THROUGHOUT DEVELOPMENT PROGRAM. U. S. ALSO ABLE CONSIDER LOCAL COST FINANCING IN SELECTED, SOCIAL- TYPE PROJECTS OF HIGH PRIORITY TO GOI.

M) ASIAN DEVELOPMENT BANK STATED SPECIAL FUNDS
UNTIED FOR OTHER DEVELOPING COUNTRIES AND CONSIDERABLE
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TECHNICAL ASSISTANCE PROVIDED ON GRANT BASIS TO INDONESIA.
N) INDONESIAN DELEGATE COMMENTED THAT EXTRA COST TO
PROJECT CAUSED BY DIFFERENTIAL COST WOULD BE OFFSET BY
MULTIPLIER EFFECT ON EMPLOYMENT AND DEVELOPMENT GENERATED
BY LOCAL ENTERPRISES.

23. IMPLEMENTATION OF ASSISTANCE. INDONESIAN DELEGATE
NOTED FASTER IMPLEMENTATION THIS YEAR DUE BETTER UNDER-
STANDING OF PROCEDURES. GOI STILL NOT SATISFIED WITH
RATE, IS REVIEWING OWN PROCEDURES AND SEEKS DONOR SUGGES-
TIONS. ASKED DONORS ALSO REVIEW THEIR PROCEDURES AND SUG-
GESTED THAT GREATER AUTHORITY VESTED IN LOCAL DONOR REP-
RESENTATIVES COULD SPEED UP IMPLEMENTATION. IBRD NOTED
ACCELERATION OF IMPLEMENTATION AND EXPECTED IT WOULD
CONTINUE TO IMPROVE.

24. INDONESIAN DELEGATE STATED THAT ALTHOUGH UTILIZATION
OF NON- FOOD PROGRAM AID NO LONGER A PROBLEM, THERE IS NEED
TO SPREAD OUT AVAILABILITY OF AID MORE EVENLY. WHEN
DELAYS IN AVAILABILITY ARISE DUE BUDGET CYCLES OF DONOR
GOVERNMENTS, IT WAS SUGGESTED THAT DONORS CONSIDER USE OF
REIMBURSEMENT PROCEDURE. HE NOTED THAT ALL LOCAL CUR-
RENCY GENERATED BY FOOD AID GOES TO DEVELOPMENT BUDGET
AND ASKED THAT DONORS NOT TIE FOOD AID PROCEEDS TO
SPECIFIC PROJECTS, CITING EEC PRACTICE AS TROUBLESOME.

25. IN REPLY TO U. S. DELEGATE QUESTION INDONESIAN/ DELE-
GATE SAID THEY HOPED TO DECREASE WHEAT SUBSIDIES NEXT
MONTH AND CONTINUE TO DECREASE THEM WHEN POSSIBLE. HE
RECALLED RECENT REDUCTION COTTON SUBSIDY.

26. BALANCE OF PAYMENTS. DISCUSSIONS THIS SUBJECT
FOCUSED ON FOLLOWING THREE AREAS:

A) OVERALL B/ P PERFORMANCE- IN INTRODUCTORY COMMENTS
RACHMET SALEH REFERRED IMF ANALYSIS, NOTING THAT OIL
REVENUES ARE PROJECTED AT \$570 MILLION FOR 1973/74,
21 PERCENT GREATER THAN PREVIOUS YEAR, AND THAT FOR FIRST
TIME SINCE 1952 NON- OIL EXPORTS ARE EXPECTED TO TOP ONE
BILLION MARK. SHORT- TERM FLOWS, WHICH WERE SIGNIFICANT
ELEMENT 1972/73 BALANCE OF PAYMENTS ARE EXPECTED TO
CONTINUE THIS YEAR BUT AT SIGNIFICANTLY REDUCED RATE
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(\$100 MILLION IN PROJECTED 1973/74 BOP). RACHMAT SALEH

SAID THAT GOI HAS REMOVED MANDATORY INTEREST RATE REQUIRE-
MENT FOR INTERBANK DEPOSITS AND CHANGED RESERVE REQUIRE-
MENT FORMULA FOR FOREIGN EXCHANGE LIABILITIES SO THAT IT
IS COSTLIER FOR BANKS IN INDONESIA TO HOLD FOREIGN
EXCHANGE DEPOSITS. BOTH ACTIONS DESIGNED REDUCE FOREIGN
CAPITAL INFLOWS WHICH GOI BELIEVES INHIBIT DEVELOPMENT
LOCAL RESOURCES AND COULD THREATEN STABILITY OF BANKING
SYSTEM THROUGH PRECIPITIOUS REPATRIATION OF LARGE SUMS.
B) MEDIUM TERM BORROWING - BILATERAL DONORS WERE
GENERALLY RESTRAINED IN THEIR CRITICISM OF PAST GOI
PERFORMANCE AND SEVERAL, INCLUDING DUTCH, JAPANESE, AND

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ACTION AID-59

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U. S., INDICATED THEY WOULD ATTEMPT COOPERATE WITH GOI EFFORTS
CONTROL BORROWING. IN COMMENTING ON DUTCH SUGGESTION THAT DONOR
COUNTRIES ASSIST GOI IN EFFORTS CONTROL FOREIGN BORROWING BY
PERHAPS LIMITING EXPORT CREDITS TO INDONESIA, RACHMET SALEH ASKED
IGGI COUNTRIES TO HELP GOI ADHERE TO STANDARDS FISCAL DISCIPLINE
BY PROVIDING INFORMATION TO APPROPRIATE GOI OFFICIALS ON ACTIONS
UNDERTAKEN BY INDONESIAN INSTITUTIONS WHICH COULD AFFECT
BORROWING CEILING. HE NOTED, HOWEVER, THAT INQUIRIES ON BEHALF
INDONESIA PURCHASERS MUST BE DISTINGUISHED FROM CONCRETE NEG-
OTIATIONS AND THAT MAY 3 BORROWING DECREE REQUIRES THAT MOF
APPROVE IN WRITING ALL FOREIGN BORROWING AGREEMENTS.

USDEL COMMENTED THAT CURRENT DISCUSSIONS REPRESENTED GREAT
ADVANCE OVER LAST DECEMBER. HE URGED, HOWEVER, THAT MERE
COMPLIANCE WITH CEILING ON BORROWING NOT ENOUGH AND THAT ATT-
ENTION SHOULD BE GIVEN TO FUNDAMENTAL POINT THAT BORROWING SHOULD
BE ON THE RIGHT TERMS FOR THE RIGHT PROJECTS. EXTENT TO WHICH
PARTICULAR INVESTMENTS ARE FINANCIALLY REWARDING AND CONTRIBUTE
TO NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT ULTIMATELY DETERMINES
VALIDITY OF BORROWING. THIS CONCERNS NOT ONLY POTENTIAL MERITS
OF EACH PROJECT, BUT ALSO REASONABLE ASSURANCE THAT INVESTMENT

CAN BE MADE AND MANAGED IN ECONOMIC AND PRUDENT MANNER. (FYI, THIS STATEMENT EXCEPTIONALLY WELL- RECEIVED, DRAWING SOME COMMENT DURING AND MUCH AFTER CONFERENCE, WITH WIDJOJO REQUESTING VERBATIM TEXT FOR USE IN DJAKARTA .)
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FRENCH DELEGATION INDICATED GOF WOULD COOPERATE WITH INDONESIAN EFFORTS CONTROL BORROWING, THAT GOI SHOULD ALSO PROVIDE ACCOUNTING FOR FOREIGN DEBTS INCURRED BY PRIVATE SECTOR, AND, IN FINE EXAMPLE CARTESIAN LOGIC, SUGGESTED THAT GOI SHOULD PROVIDE GOVT GUARANTEES FOR CERTAIN PROJECTS AS MEANS OF IDENTIFYING THEM AS GOI PRIORITY PROJECTS TO FOREIGN FINANCIERS. JAPANESE REPRESENTATIVE ASSOCIATED HIS GOVT WITH WORLD BANK AND U. S. STATEMENTS ON MEDIUM- TERM BORROWING ISSUE AND INDICATED GOJ WILL COOPERATE CLOSELY WITH GOI IN EFFORTS CONTROL BORROWING AND EXPANSION OF CREDIT. RACHMET SALEH EXPRESSED APPRECIATION THESE AND OTHER DONOR COMMENTS. HE SAID GOI AWARE THAT CEILING IS JUST ONE TOOL IN INVESTMENT PLANNING BUT THAT IT IS PURPOSE OF PROJECT WHICH COUNTS AND THAT THIS IS SPIRIT OF HOW REGULATION AND DECREES AGREED WITH IMF WILL BE HANDLED. HE FURTHER STATED THAT UNDER FREE FX SYSTEM IT HAS BEEN IMPOSSIBLE ACCOUNT FOR PRIVATE SECOR BORROWINGS, ALTHOUGH MOST ARE FOR ONE YEAR OR LESS, BUT THAT NEW REPORTING SYSTEM SHOULD PROVIDE GOVT WITH IMPROVED STATISTICS.

C. LIQUIFIED NATURAL GAS - RACHMET SALEH SAID THAT TWO LNG PROJECTS ARE UNDER CONSIDERATION TOTALING \$800 MILLION. IT APPEARS THAT LOANS FOR THESE PROJECTS COULD BE JUSTIFIED ON 20-YEAR BASIS. HE STRESSED, HOWEVER, THAT ECONOMIC FEASIBILITY OF THESE PROJECTS HAS YET TO BE DETERMINED.

27. AGRICULTURE SECTOR. IN MAY 8 SESSION INDONESIAN DELEGATION OUTLINED PLANS AND PROBLEMS IN AGRICULTURE SECTOR, WITH EMPHASIS ON FOOD PRODUCTION. NOTING THAT AGRICULTURE EMPLOYS OVER 60 PERCENT OF WORK FORCE AND PROVIDES MORE THAN HALF GNP, GOI HAS MADE AGRICULTURE CENTER OF SECOND FIVE YEAR PLAN AND WILL CONCENTRATE ON SERVICES TO FARMER AND CREATION AGRICULTURAL EMPLOYMENT. IBRD, DUTCH, GERMANS AND CANADIANS ALL STRESSED POINT THAT TIMBER INDUSTRY REQUIRES MORE CONTROL AND RATIONAL DEVELOPMENT IF OVER- CUTTING AND DANGEROUS DEFORESTATION IS TO BE AVOIDED. CANADA CALLED FOR MAJOR ATTENTION TO THIS SECTOR IN DECEMBER 1973 IGGI MEETING. USDEL STRESSED IMPORTANCE OF CROP DIVERSIFICATION.

28. PRIVATE INVESTMENT - INDONESIAN DELEGATION ANNOUNCED PLANS FOR NEW INVESTMENT AGENCY TO DEAL WITH NUMBER OF INVESTOR PROBLEMS, ESPECIALLY RED TAPE. RACHMAT SALEH SAID NEW PLAN, APPROVED
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BY PRESIDENT SUHARTO ONLY TWO DAYS BEFORE INDONESIAN DELEGATION LEFT FOR MEETING, WILL PROVIDE " ONE- ADDRESS SERVICING UNIT" WITH ADEQUATE PERSONNEL AND BUDGET. SALEH ASLO SAID GOI WILL ATTEMPT PROVIDE FOREIGN INVESTORS WITH MORE PRECISE INFORMATION ON THOSE SECTORS CONSIDERED " SATURATED" AND HENCE NOT OPEN TO FOREIGN INVESTMENT. ASKED ABOUT DIFFICULTIES FACED BY FOREIGN INVESTORS IN FINDING SUITABLE INDONESIAN PARTNERS FOR JOINT VENTURES, SALEH OUTLINED GOI PLANS TO PROVIDE CAPITAL FOR YOUNG, AGGRESSIVE INDONESIAN ENTREPRENEURS WHO ARE HANDICAPPED BY LACK OF FUNDS.

29. USDEL NOTED THAT PROPOSED MEASURES TO ASSIST INVESTORS AND CUT RED TAPE ARE OF HIGH ORDER OF IMPORTANCE, STRESSED OUR CONTINUING INTEREST IN THESE EFFORTS, AND SAID WE PARTICULARLY GRATIFIED IF OUR UNDERSTANDING CORRECT THAT NEW AGENCY WAS TO DEAL WITH INVESTOR PROBLEMS CAUSED BY REGIONAL CONTROLS, TAXES, AND OTHER UNANTICIPATED REGIONAL REQUIREMENTS, NOTING THAT WITH THESE PROBLEMS IN HAND, PRIVATE INVESTMENT WOULD, AS IT SHOULD, PLAY EVEN LARGER ROLE IN INDONESIAN DEVELOPMENT.

30. INTERNATIONAL FINANCIAL INSTITUTIONS - IN FINAL REMARKS, WIDJOJO NOTED IMPORTANCE OF ASSISTANCE GIVEN BY IDA, ADB, AND UNDP AND CALLED ON MEMBER GOVERNMENTS TO INSURE THAT THESE ORGANIZATIONS GET NEEDED REPLENISHMENT OF FUNDS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 10 MAY 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: thigpegh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973THEHA02141
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730560/abqcektm.tel
Line Count: 729
Locator: TEXT ON-LINE
Office: ACTION AID
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 14
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: thigpegh
Review Comment: n/a
Review Content Flags:
Review Date: 19 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19-Sep-2001 by smithrj>; APPROVED <16-Nov-2001 by thigpegh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> mcm 980123
Subject: REPORT ON INTERGOVERNMENTAL GROUP ON INDONESIA (IGGI) 14 TH MEETING, AMSTERDAM, MAY 7-8 1973
TAGS: EAID, ID
To: STATE INFO JAKARTA
TOKYO
USUN NY
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005